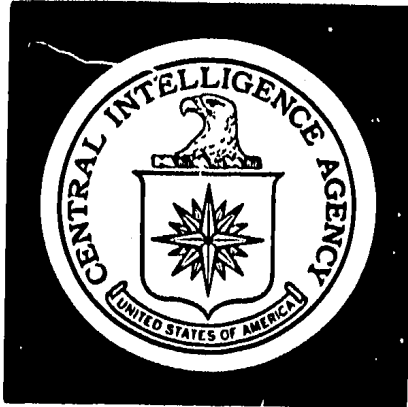


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Soviet Equipment Orders Down In 1969*

~~Secret~~

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February 1970

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
February 1970

### INTELLIGENCE MEMORANDUM

#### Soviet Equipment Orders Down In 1969

##### Introduction

Beginning in 1966 the USSR increased substantially its purchases of Western plants and equipment from Developed Western countries. These purchases are designed to help upgrade Soviet industry and expand output in priority sectors -- for example, motor vehicles, chemicals, fuels, and others. In 1969, however, Soviet orders for Western plants and equipment declined considerably. This memorandum discusses briefly the types of purchases made in 1969, possible reasons for the decline in orders, and prospects for 1970.

##### Background

1. Soviet plant and equipment contracts placed with Western suppliers fell off substantially in 1969. During the period 1966-68 the value of such contracts averaged in excess of \$700 million annually (about \$700 million in 1968) but fell to about \$400 million in 1969 (see Table 1). Almost no major contracts were concluded between May and November of 1969, and more than one-third of the total value of the 1969

*Note: This memorandum was produced solely by CIA.  
It was prepared by the Office of Economic Research.*

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Table 1

USSR: Value of Orders for Plants and Equipment  
from the Developed West, by Category a/

	Million US \$			
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
<i>Total</i>	904	564	678	399
Motor vehicle manufacturing	462	47	78 <u>b/</u>	52
Chemical and petrochemical	123	94 <u>c/</u>	90 <u>c/</u>	82
Ships and marine equipment	24	75	139	Negl.
Timber and wood processing	69	6	143	21
Textile manufacturing	59	106	9	4
Food processing	52	41	31	9
Metalworking and metallurgy	17	22	34	29
Oil, gas, and pipe- line equipment	19	12	35	132
Electronics	10	20	9	22
Other <u>d/</u>	68	142	110	49

*a. Excluding Finland, which is on a bilateral clearing basis. Because of rounding, components may not add to the totals shown.*

*b. Including a plant valued at \$54 million to manufacture rubber products. The plant could also be subsumed under the category "Chemical and petrochemical."*

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Table 1

USSR: Value of Orders for Plants and Equipment  
from the Developed West, by Category a/  
(Continued)

*c. Excluding several known contracts for which values were not reported. Inclusion of estimated values for these contracts, and the \$54 million rubber product plant contract, would increase the values shown above for chemical and petrochemical equipment to \$105 million in 1967 and \$145 million in 1968.*

*d. Including a wide variety of plants and equipment with consumer orientation -- for example, for production of footwear, home refrigerators, and supermarket equipment. The category also includes printing equipment, mining equipment, medical equipment, and other items.*

contracts was concluded in the last six weeks of the year. Actual imports of machinery and equipment from the Developed West have increased substantially in recent years, reflecting the high level of earlier contracts. Such imports, which rose from roughly \$500 million in 1966 to an all-time high of \$900 million in 1968, apparently continued at a similar level in 1969.

#### Developments in 1969

2. The contracts concluded in 1969 followed some of the patterns of recent years. Equipment for the chemical and petrochemical industries continued to be an important category as it has for the last decade. Two-thirds of the total value of 1969 orders in this category were represented by two large contracts, one for an ammonia plant from Japan (employing US technical data) and the other from the United Kingdom for a complex to produce polyester film. Equipment for the motor vehicle industry also was featured in 1969, continuing the pattern of the previous three years. Numerous small contracts were concluded for a variety of items to expand motor vehicle output in the USSR -- to produce among other

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things cylinder blocks, clutches, crankshafts, and gears.

3. Notable departures from recent years include the virtual disappearance of contracts for ships and marine equipment. In 1969 such orders apparently were placed almost exclusively with bilateral clearing countries, such as Finland, and with Communist countries. Contracts for timber and wood processing equipment fell off substantially from the 1968 high of \$143 million when the USSR concluded a \$133 million contract with Japan to provide equipment to exploit Siberian forest resources. In contrast to these declines, there was a significant increase in contracts involving the gas industry. The largest of the orders is part of the \$200 million Soviet-Italian contract which basically exchanges Soviet gas for Italian pipe and equipment. The contract includes about \$80 million in pipeline equipment, pipe-laying equipment, and other gear. In addition, two orders totaling more than \$50 million in value were placed in Italy and France for plants to process Soviet natural gas (liquid recovery, desulfurization, and sulfur recovery).

4. The value of contracts for electronic items was also up somewhat in 1969, but most noteworthy was the fact that virtually all the contracts were for computers, with almost all of the machines being third-generation computers ordered from the United Kingdom.\* Contracts for textile manufacturing and food processing almost dried up in 1969, but other items with consumer orientation were ordered. These items included, among others, two plants to produce compressors for household refrigerators, equipment to produce cosmetic ingredients, and complete equipment for 14 supermarkets.

5. The same Western countries which have received the bulk of the Soviet contracts in recent years were similarly favored in 1969 -- Italy, the United Kingdom, France, and Japan (see Table 2).

*\* Some fall under COCOM controls, and the most sophisticated of the computers involved in the contracts may be denied.*

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Italy benefited mainly from the large gas pipeline equipment order. The two major contracts signed with France in 1969 were for less than in 1968, when France sold almost \$100 million in ships to the USSR. The British made a strong showing in 1969 and, as in 1968, a variety of smaller contracts accounted for most of the total. Following the huge 1968 contract related to Siberian timber exploitation, the value of Soviet-Japanese contracts dropped substantially. Two contracts, a \$24 million ammonia plant and a \$20 million order for equipment to produce refrigerator compressors, made up most of the total from Japan. Orders from West Germany also fell sharply. Included in the 1969 orders, however, was a contract involving an experimental plant to produce large-diameter pipe. If the USSR decides to use the West German process instead of its own, additional orders will be forthcoming. Finally, orders from Sweden fell almost to nothing because, among other things, there was no large ship contract such as the \$37 million order in 1968.

Table 2

USSR: Value of Orders for Plants and Equipment  
from the Developed West, by Country a/

	Million US \$			
	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
<i>Total</i>	904	564	678	399
Italy	484	111	72	122
France	180	132	171	66
United Kingdom	69	167	64	110
Japan	29	44	188	49
West Germany	35	25	45	13
Sweden	45	33	62	8
Other <u>b/</u>	61	54	75	31

*a. Excluding Finland. Because of rounding, components may not add to the totals shown.*

*b. Including contracts with Austria, Belgium, Denmark, the Netherlands, Norway, Switzerland, and the United States and, for 1966, a \$20 million contract shared among Belgium, France, and Italy.*

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Possible Reasons for the Decline

6. During the first five months of 1969 about \$200 million in contracts were signed with Western suppliers. In the following five-month period -- to mid-November -- there was a near absence of large contracts and the total value of known contracts fell to about \$50 million to \$60 million. This period was followed by a spate of new large contracts in the last six weeks of the year, including the \$80 million equipment element in the Soviet-Italian pipeline contract, \$12 million for British computers, the \$30 million Soviet-UK contract for the polyester film complex, and \$30 million for French gas processing plants.

7. It is difficult to judge whether the reduction in the volume of new contracts was intentional, in effect a standdown. Such a standdown most likely was the result of a combination of possible causes. It might have been a function of the uncertainty generated by the unfavorable wheat crop and the consequent possibility of having to spend scarce hard currency for imports of wheat. Coupled with the upsurge in imports of finished steel in 1969 -- perhaps \$50 million to \$75 million over the 1968 level -- and the tense Soviet-Chinese border situation, the USSR might have been led to exercise even greater caution in committing hard currency resources for Western imports. The hiatus might also have resulted from negotiations for contracts consuming more time than planned or from a falloff in new plant orders as the end of the current five-year plan nears.

8. On the basis of balance of payments, nothing unusual appeared in the Soviet hard currency payments picture in 1969, beyond the normal payments constraints with which the USSR normally must contend. Although hard currency imports from Western Europe and Japan appear to have risen substantially more in 1969 than exports to those countries (roughly \$200 million greater according to preliminary Western trade data), this rise was offset to a significant degree by a \$100 million decline in imports of wheat from Canada and a \$25 million to \$50 million decline in imports

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of rubber from Malaya and Singapore. No Soviet gold was known to have been sold in 1969, the first time this has happened in two decades. Occasional rumors of imminent sales, however, have emanated from Western grain circles.

9. Longer term financial considerations do not appear to have been a factor either (an indebtedness to the West amounting to about \$1 billion from long-term and medium-term credits; the declining rate of increase in exports of the major Soviet hard currency earner, oil; and the relatively slow growth in hard currency exports\*). The USSR will be mortgaging additional hundreds of millions of dollars in future export earnings through deals signed at the end of 1969 and to be signed during 1970, and all involve long-term credit. The first of several gas-for-pipe deals with hard currency trading partners was signed with Italy in November. Early this year a similar agreement with West Germany will be concluded involving more than \$300 million in West German pipe, and still another agreement on the same order of magnitude as the Soviet-Italian contract probably will be signed with France (and possibly with Japan) in 1970. Moreover, a number of contracts for chemical plants are being negotiated with Western suppliers. Also, a \$350 million contract with Japan involving the exchange of Japanese equipment for Soviet wood chips is to be signed in the very near future.

10. If the decline in Soviet orders from the West was a function of short-term payments problems, they do not appear to be a factor now. Aside from the recently signed and soon-to-be-signed contracts for pipe and equipment, the USSR also agreed to take the remaining 3.4 million tons of wheat outstanding on its contract with Canada. Roughly 2 million tons valued at about \$130 million will be imported in 1970 with the remaining deliveries yet to be scheduled.

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\* The major exception is gem diamonds. Soviet exports have risen from about \$25 million in 1965 to roughly \$150 million in 1969.

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### Prospects for 1970

11. Assuming no changes in known priorities, some chemical plants are expected to be ordered from the West in 1970, and these purchases are expected to continue at an annual average of at least \$100 million through 1972. The Soviet-Japanese equipment-for-wood-chips contract alone will be worth almost as much as the total value of 1969 equipment contracts. Contracts for the motor vehicle industry, specifically for truck manufacturing, probably will be signed in 1970 as well. These expected developments suggest that equipment orders will rise well above the 1969 level. If the anticipated pipe deals were added, more than \$1 billion in Western plants, equipment, and pipe would be involved.

12. The loosening of COCOM controls already has resulted in increased orders for electronic items, particularly computer equipment, from a number of Communist countries. The USSR made its first substantial purchases of Western computers in 1969 and may endeavor to obtain additional computer equipment (and software) as well as other electronic equipment in 1970.

### Conclusions

13. Soviet orders for Western plants and equipment fell from almost \$700 million in 1968, and an average of more than \$700 million in 1966-68, to roughly \$400 million in 1969. Most of the decline was accounted for by ships and marine equipment and by timber and wood processing equipment. Orders for motor vehicle manufacturing equipment and for chemical and petrochemical equipment continued recent trends, but at a somewhat reduced level. Contrasting this was the sharp increase in orders related to the gas industry, featuring equipment for the transmission and processing of natural gas. There was also an increase in electronics items, with the USSR placing its first substantial orders for Western computers -- mostly of the third-generation variety.

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14. The trends reflected in 1969 are not considered indicative for 1970. Orders are expected to rise again in 1970, unless there is a payments crisis such as took place in 1963-65. Indications are that a number of orders will be placed in 1970 for chemical equipment, equipment for the motor vehicle industry, and equipment related to natural gas processing and transmission and the timber and wood processing industry. A single contract to be signed with Japan will call for \$350 million in Japanese equipment for timber and wood processing, almost as much as the total value of contracts signed in 1969.

15. The falloff in orders in 1969 does not appear to have been related to payments difficulties *per se*. Available evidence fails to show that the Soviet hard currency payments position in 1969 was more stringent than in 1968. If there was a standdown in the placement of orders in 1969, it might have been caused by the heightened tension connected with the Sino-Soviet border dispute. Another possible cause was uncertainties in Soviet agricultural output and the possible need to buy wheat. Increased imports of steel also may have contributed to such caution. More than likely the decline in orders resulted from a combination of these factors, in particular the border dispute with China.

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